March 31, 2005

Gary M. Jackson
Assistant Administrator for Size Standards
Office of Size Standards
Small Business Administration
409 Third Street, SW
Washington, DC 20416

Re: Proposed Rulemaking Affecting SBIR Funding

Dear Mr. Jackson:

On behalf of the North Carolina Biotechnology Center, I thank you for the opportunity to comment on the Small Business Administration's (SBA) Advance Notice of Proposed Rulemaking (ANPRM) regarding the participation of businesses in the SBIR program that are majority-owned by one or more venture capital companies (VCC).

The North Carolina Biotechnology Center is a private, non-profit organization established by the State of North Carolina to provide long-term economic and societal benefits to North Carolina by supporting biotechnology research, business and education. As part of its economic development mission the Biotechnology Center provides low-interest loans to start-up and early-stage biotechnology companies and works very closely with local venture capitalists in their effort to help advance the research and development efforts of North Carolina's biotechnology industry.

The Biotechnology Center provides loans to companies such as Kucera Pharmaceuticals, typical of the companies the SBIR program was created to help: a small business working to commercialize new technologies. Companies such as these normally receive SBIR grants to fuel the research and development that lead to the commercialization of a technology. Along with SBIR funding companies such as Kucera receive crucial financial support from venture capital firms. Without venture capital support it is unlikely many biotechnology advances would be fully commercialized. Therefore, I believe it is vital that venture-backed small businesses be allowed to participate in the SBIR grant program.

I understand the 51% Rule now allows an SBIR award recipient to be owned by a VCC, as long as the VCC is itself owned and controlled by U.S. individuals. Applicants who meet the ownership criteria in the 51% Rule, however, are still subject to SBIR size standards, most significantly, limiting the number of employees of the applicant and its affiliates to 500. The SBA is now seeking comment as to whether VCCs should be excluded from this definition of affiliate when determining small business eligibility for the SBIR program.

While I applaud the SBA's recognition in the 51% Rule that a business concern can be technically both majority-owned by VCCs and still eligible to receive an SBIR award, it does not fully accomplish the goals of Small Business Innovation Development Act (SBIDA), since the majority of limited partners in a VCC are not individuals even if in such cases -- as with pension funds -- they represent the interests of individuals. I believe that a pragmatic framework that reasonably allows VCC-financed small businesses to receive SBIR grants is still several steps away. **We believe that the SBA should (1) provide an exclusion from affiliation with VCCs in determining small business eligibility and (2) further extend an exception to the 51% Rule to include VCCs in the definition of "individuals."**

In this age of outsourcing jobs overseas, it is important for our economy that small businesses be given every opportunity to commercialize new technologies and create jobs in the U.S. The symbiotic relationship between public and private investment in small businesses through venture capital funding and SBIR grants provides the U.S. economy a competitive advantage.

I appreciate the opportunity to comment on this important matter.

Sincerely,

John P. Richert
Vice President, Business and Technology Development
North Carolina Biotechnology Center